



County of Los Angeles CHIEF EXECUTIVE OFFICE

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WILLIAM T FUJIOKA
Chief Executive Officer

June 10, 2011

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To: Mayor Michael D. Antonovich
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From: William T Fujioka
Chief Executive Officer

SACRAMENTO UPDATE

This memorandum provides a report on actions taken by the Senate and Assembly Budget Committees on the FY 2011-12 State Budget.

State Budget

On June 8, 2011, the Senate and Assembly Budget Committees approved their respective FY 2011-12 State Budget plans on a majority vote with the Senate committee voting 10 to 5 and the Assembly committee voting 15 to 10. The two plans now move to the Senate and Assembly Floor with the members of the Legislature facing the June 15th Constitutional deadline to enact a budget; however, the Republican and Democratic legislators remain divided on how to address the remaining \$9.6 billion budget deficit.

As previously reported, the Governor's May Budget Revision contains \$10.8 billion in solutions to address the remaining budget gap as follows: 1) additional expenditure reductions (\$2.26 billion); 2) revenue solutions which primarily consist on the continuation of existing tax increases set to expire this year (\$9.32 billion); and 3) various adjustments to special funds and fund shifts (-\$0.75 billion).

The Senate and Assembly Budget Committees generally adopted the Governor's May Revision proposals, including \$9.32 billion in revenue solutions. The Senate Budget Committee approved a one-year extension of the increases in the Vehicle License Fee,

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sales tax, and personal income tax which are set to expire on June 30, 2011 and noted that the extension is needed to provide funding for school districts and local public safety activities pending a special election to seek voter approval to extend existing tax increases and to provide time for schools and counties to plan for significant funding reductions in the event that the voters fail to approve the extension. The Assembly Budget Committee did not take similar action to extend the taxes until a voter initiative could be held.

Governor Brown has been in negotiations with Republican leaders to obtain their support for a ballot measure to seek voter approval to extend \$8.6 billion in tax increases for five years in exchange for pension reform, environmental regulatory reform and a State spending cap. As previously reported, the Governor proposes to use the tax extension to fund his Realignment proposal which would transfer \$5.6 billion in State fiscal and program responsibilities to counties for various public safety, mental health, public health, child welfare, foster care and adult protective services programs beginning in FY 2011-12. An estimated \$3.0 billion would be used to provide increased funding for K-12 education. However, the Republican leaders continue to express their strong opposition so-called bridge funding to extend the tax increases until a special election in September and have indicated that an extension would undermine any agreement with the Governor.

The Senate is tentatively scheduled to convene floor sessions on the State Budget through the weekend. The Assembly has adjourned until Monday, June 13, 2011.

Major Items of Interest to the County

The Budget Committees adopted the following major provisions of the Governor's May Revision of interest to the County.

- **Bridge Funding.** The Senate Budget Committee approved a one-year extension of existing tax increases, pending a special election, to seek voter approval on a four-year extension of \$8.6 billion in taxes. The Assembly Budget Committee did not take similar action.
- **Revised Realignment Proposal.** Both Budget Committees adopted the Governor's revised Realignment proposal which would shift \$5.6 billion in program responsibilities from the State to counties, instead of the \$5.9 billion proposed in the January Realignment Proposal. The shift would be funded for five years with the proposed extension of the 1.0 percent sales tax increase (\$4.52 billion) and a 0.4 percent Vehicle License Fee increase (\$1.08 billion), and removes the following four programs proposed for realignment: 1) AB 3632 services; 2) fire protection; 3) select public safety mandates; and 4) training programs.

- **AB 3632 Program.** Both Budget Committees adopted the Governor's May Revision proposal to repeal the AB 3632 mandate on counties, and the shift of the program from the counties to schools effective July 1, 2011. The Committees also approved an increase of \$221.8 million from the State General Fund to shift the responsibility, including out-of-state residential care services. In addition, approved a \$68.0 million decrease in FY 2011-12 to reflect a shift in responsibility of funding for Seriously Emotionally Disturbed children residential care placements from the State Department of Social Services to schools.
- **Redevelopment.** Both Budget Committees adopted the Governor's proposal to fund economic development activities at the local level and phases out the existing funding mechanism for Redevelopment Agencies (RDA). The Administration indicates that the proposal would return billions in property tax revenues to schools, cities, and counties to help sustain core functions including law enforcement, fire protection, and education. An estimated \$1.7 billion would be used to offset State General Fund costs for Medi-Cal and trial courts, and existing property tax revenue would continue to be used for RDA debt service and for core services provided by local governments in FY 2011-12. Property tax revenues in excess of RDA debt service would be distributed on an on-going basis to schools, counties, cities and non-enterprise special districts beginning in FY 2012-13. These distributions will generally reflect the distribution of property tax in each county under existing law.

We will continue to keep you apprised.

WTF:RA
MR:IGEA:lm

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